

## GREATER DOWNTOWN LOS ANGELES

### Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
LA County Employment	4.47M	4.52M	▲
LA County Unemployment	4.4%	4.7%	▼
U.S. Unemployment	4.1%	3.7%	▼

\*Q4 data represents November

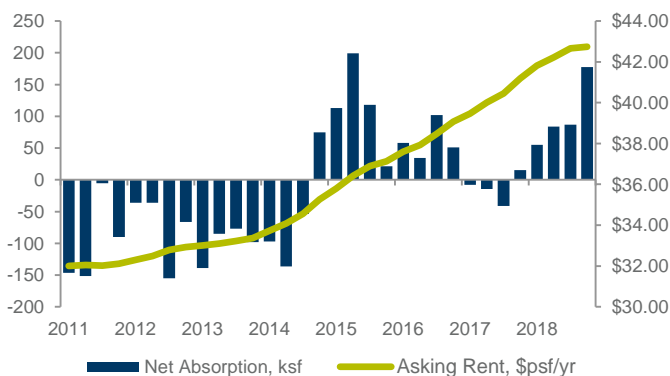
### Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	21.1%	20.1%	▼
Net Absorption (sf)	-31k	330k	▲
Under Construction (sf)	104k	42k	▼
Average Asking Rent*	\$42.76	\$43.08	▲

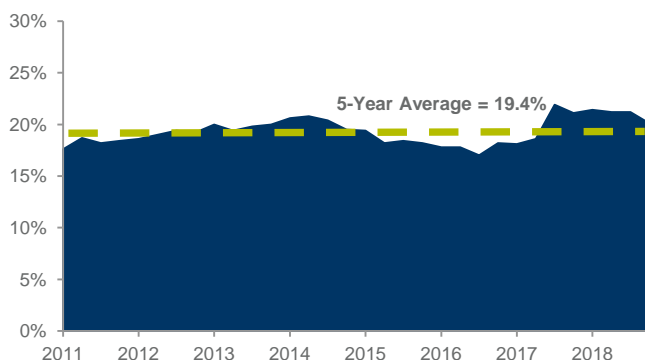
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

With the addition of 155,000 jobs, U.S. job growth rose less than forecast in November while the unemployment rate remained at the lowest level in almost five decades, indicating some moderation in a still-healthy labor market. Locally, Los Angeles County's unemployment rate increased to 4.7% in November from 4.5% one year ago, with nonfarm employment increasing by 60,400 or 1.3% over the last year. The prolonged run in office-using job growth continues, albeit slower, with the professional and business services sector adding 18,600 jobs and the information sector gaining 3,800 jobs. Most industries will add jobs over the next five years, but overall, the strongest job growth will be in service providing industries, including health services and information, which is projected to add 26,000 jobs over the next five years driven by the continued adoption of more advanced technologies.

## Market Overview

The Central Business District (CBD) and the Non-CBD together comprise 36.4 million square feet (msf) of office inventory making up Downtown Los Angeles (DTLA).

DTLA continues to purvey through its ongoing transformation of being more than a daytime population, surrounding multifamily and entertainment related amenities that have completed in both the CBD and Non-CBD continue to strengthen the market. As illustrated in the 2.3 msf of strong leasing activity throughout the year, which in turn related to healthy occupancy gains to close out the year. With 709,551 square feet (sf) of occupancy gains, the overall vacancy rate dropped 100 basis points (bps) to 20.1%. Returning to similar rates posted in third quarter 2017, prior to base inventory increases, where many sizable new speculative construction projects delivered vacant. Fourth quarter average asking rental rates of \$43.08 per square foot per year (psf/yr) are up 0.4% from last quarter and 2.7% year-over-year continuing to rise slightly. In general, market fundamentals in Downtown Los Angeles have stabilized throughout the year. Tenants that have signed leases to relocate from outside of the market have generated healthy occupancy gains in Downtown Los Angeles and more will hit the market in early 2019, especially in the Downtown non-CBD with notable tenants set to occupy in the Arts District.

## Central Business District (CBD)

The overall vacancy rate continued to decline with a reported 260-bps change year-over-year to 18.6%, with direct vacancy posting at 17.9%.

## CBD (continued)

Occupancy gains of 865,000 sf in Bunker Hill throughout the year was the major factor in the lowest vacancy rates recorded in the CBD since 2011 and the highest CBD net absorption recorded in a decade. Fueling these occupancy gains in Bunker Hill, the State of CA took possession of their 140,000-sf space at Wells Fargo South and City National occupied the remainder of space and expansion space for 180,000 sf at 350 South Grand Avenue. Fourth quarter leasing activity was healthy with 330,481 sf and was slightly lower than the 375,000 sf quarterly average in 2018, with year-end locking in 1.5 msf of new leases. The largest lease of the quarter was Capital Groups' renewal for 78,900 sf at 355 South Grand Avenue, followed by Lockton Insurance's direct lease of 69,500 sf at 777 South Figueroa Street and American Business Bank's deal for 42,300 sf at 400 South Hope Street. Another coworking/flexible space provider, Carr Workplace, entered the downtown market with 24,000 sf at the Bloc.

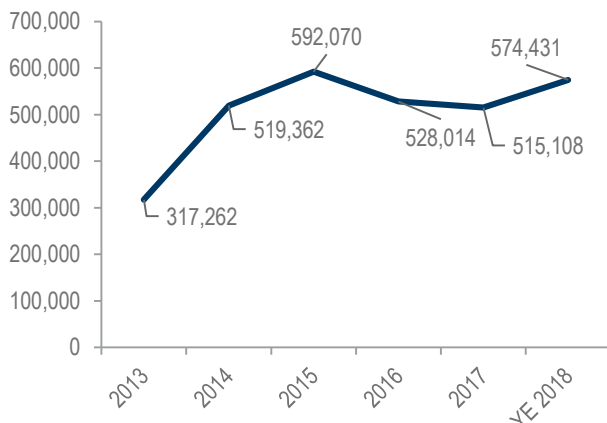
Trending similar to other submarkets rental growth has slowed, closing out the year with an overall asking rate of \$42.48 psf/yr, this rate is reflective of sub 1.0% increase year-over-year. Significant building improvements to interior and exterior space were an indication that landlords continue to emphasize their commitment to repositioning their assets to increase the quality of the product, and to adapt to different consumer tastes of an expanding tenant pool. Multiple tenants had their move-ins pushed into 2019 thus further occupancy gains could have been realized in the Financial District, however it closed with a slight negative net absorption at year-end. With continued inner-market shuffling, the Financial District posted little movement in overall vacancy rates, with an increase of 40 bps from a year ago closing the year at 19.9%.

## Downtown Non-CBD

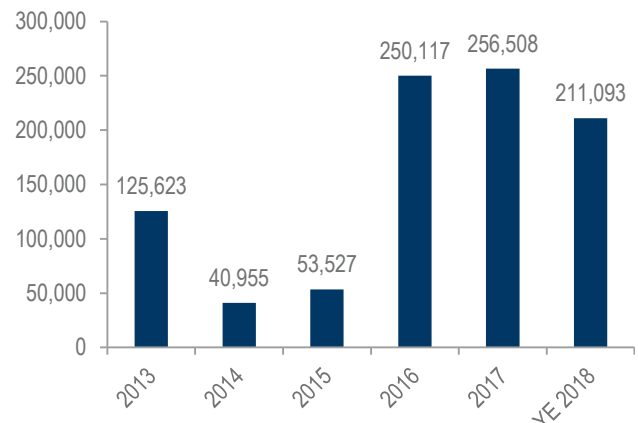
Non-CBD leasing activity settled under 50,000 sf in the fourth quarter, hailing in comparison to the first three quarters of the year where the average activity was 256,000 sf. However, the year closed with 798,000 sf of total leasing activity, an impressive 46.1% increase year-over-year. Notable leases during the quarter occurred at 145 South Spring Street (The Times South Building) with Hollar Inc. inking a 14,000-sf deal and occupying the space in the fourth quarter. Further activity occurred at The Row with Sharp signing a deal for 13,000 sf and Zappos signing and occupying 5,400 sf. Additional occupancy gains occurred at The Row with Adidas moving into 31,000 sf and SoHo House occupying 16,400 sf. Avery Dennison and WC+A are expected to take occupancy in early 2019 with 3,600 sf and 12,900 sf respectively.

The Non-CBD overall vacancy rate of 24.9% at year-end 2018 is a 400-bp increase from a year ago, primarily caused by the Los Angeles Times moving to new office space in El Segundo and the 75,409-sf vacant delivery of the Santa Fe Business Center. Negative net absorption for the year recorded -145,245 sf, however the Non-CBD is expected to realize over 500,000 sf of positive net absorption in early 2019. In addition to the beforementioned, Warner Music, Spotify and Honey make up the majority of those gains. With healthy interest from tenants circling the Non-CBD, the close of 2018 saw rates reach \$44.88 psf/yr, a minimal increase from last quarter and only a 1.6% increase from a year ago. Much of the available space marketed throughout the year with higher asking rates were taken down, slowing the rate of growth at year-end as less large blocks of space are on the market. The Non-CBD continues to realize its potential as a thriving, unique and culturally significant part of Downtown. Both the skyline and street scape continue to be redefined.

Leasing Activity  
QUARTERLY AVERAGE



Sublease Space Available



# MARKETBEAT

# Downtown Los Angeles

Office Q4 2018



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (CLASS A)*	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*
Bunker Hill	10,963,322	116,956	1,701,844	16.6%	364,599	880,946	548,899	0	\$43.92	\$43.92
Financial District	16,611,596	79,095	3,225,141	19.9%	(2,889)	(230)	951,219	0	\$42.96	\$41.59
<b>Central Business District</b>	<b>27,574,918</b>	<b>196,051</b>	<b>4,926,985</b>	<b>18.6%</b>	<b>361,710</b>	<b>880,716</b>	<b>1,500,118</b>	<b>0</b>	<b>\$43.36</b>	<b>\$42.45</b>
South Park	1,912,944	5,735	335,090	17.8%	36,895	(121,137)	183,208	0	\$35.28	\$35.64
Central City West	610,213	0	108,416	17.8%	(15,828)	(27,284)	51,597	0	N/A	\$30.42
Historic District	3,274,738	9,307	257,408	7.9%	(33,465)	(144,412)	138,124	0	N/A	\$35.96
Little Tokyo/Chinatown	1,524,408	0	480,188	32.1%	(973)	(1,639)	44,057	0	\$37.20	\$40.76
Fashion District	109,914	0	43,610	39.7%	874	874	19,700	0	N/A	\$33.83
Arts District	1,416,976	0	962,061	67.9%	7,123	148,363	360,921	41,715	\$56.82	\$56.16
<b>Downtown Non-CBD</b>	<b>8,849,193</b>	<b>15,042</b>	<b>2,186,773</b>	<b>24.9%</b>	<b>(5,374)</b>	<b>(145,235)</b>	<b>797,607</b>	<b>41,715</b>	<b>\$52.92</b>	<b>\$44.88</b>
<b>DOWNTOWN LOS ANGELES</b>	<b>36,424,111</b>	<b>211,093</b>	<b>7,113,758</b>	<b>20.1%</b>	<b>330,406</b>	<b>709,551</b>	<b>2,297,725</b>	<b>41,715</b>	<b>\$44.88</b>	<b>\$43.08</b>

\*Rental rates reflect gross asking \$psf/year \*\*Does not include Renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	26,294,873	197,026	21.0%	21.7%	331,043	790,551	1,759,191	0	\$45.60	\$44.88
Class B	8,939,024	12,960	16.0%	16.1%	(1,158)	(146,226)	475,774	41,715	\$36.36	\$36.24
Class C	1,190,214	1,107	14.4%	14.5%	521	65,383	62,760	0	\$29.88	\$29.88

## Key Lease Transactions Q4 2018

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
355 South Grand Avenue / Wells Fargo Center - South	78,899	Capital Group	Renewal*	Bunker Hill
777 South Figueroa Street / 777 Tower	69,544	Lockton Insurance	New Lease	Financial District
400 South Hope Street	42,303	American Business Bank	New Lease	Bunker Hill
801 South Figueroa Street / 801 Tower	24,771	Anthem Blue Cross	Renewal*	Financial District
700 South Flower Street / The Bloc	23,951	Carr Workplace	New Lease	Financial District
633 West 5th Street / US Bank Tower	23,571	Lewis Brisbois	Expansion	Bunker Hill
444 South Flower Street / Citigroup Center	22,275	Industrious	New Lease	Bunker Hill

\*Renewals not included in leasing statistics

## Key Sale Transactions Q4 2018

PROPERTY	OFFICE SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
601 W 5th Street / The CalEdison Building	284,954	Lionstone Investments / GreenOak	\$130,100,000 / \$457	Bunker Hill

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